Interstate Access Rate of Return

Pursuant to rules it adopted in 1985 and 1986, the FCC prescribes the rate of return on the interstate access services of LECs such as the Company. The FCC has set an 11.25% return for 1991 and beyond. This rate of return serves as a benchmark for regulation of the Company under price cap regulation. (See "Price Caps.")

The FCC had also adopted rate of return enforcement rules, which required carriers to target their rates to produce the prescribed return and to refund automatically earnings in excess of their allowable return (the prescribed target return plus an increment of 25 basis points on overall earnings or 40 basis points on each of three categories of service). On January 22, 1988, the U.S. Court of Appeals for the District of Columbia Circuit held that the FCC's automatic refund rule was arbitrary and capricious, and remanded the case to the FCC so that it could, if it wished, promulgate a new refund rule. The FCC subsequently stayed indefinitely any requirement that carriers refund excess earnings for the initial enforcement period (October 1985 through December 1986), during which time the prescribed rate of return was 12.75%. The FCC has taken no action to revise its enforcement rules. The FCC has, however, permitted access customers to file complaints for damages in which the damages are calculated in accordance with the FCC's automatic refund methodology. Appeals of the FCC's rulings permitting such complaints to be filed were dismissed as premature. The Company has settled the major complaints.

Under FCC-approved tariffs, all of the Bell Atlantic telephone companies are charging uniform rates for interstate access services (with the exception of Subscriber Line Charges) in all Bell Atlantic jurisdictions, and are regarded as a single unit by the FCC for rate of return measurement. A supplementary agreement covers the sharing of these interstate revenues with affiliated Chesapeake and Potomac Telephone Companies (C&P Companies). This arrangement is designed to enable each of the C&P Companies to recover its expenses and to achieve a common return on equity invested, within FCC guidelines, while charging uniform rates in all jurisdictions.

Price Caps

On September 19, 1990, the FCC adopted "price cap" regulation as a replacement for traditional rate of return regulation for LECs, such as the Company. The new system places a cap on overall prices for interstate services and requires that the cap decrease annually, in inflation-adjusted terms, by a fixed amount which is intended to reflect expected increases in productivity. The price cap level can also be adjusted to reflect "exogenous" changes, such as changes in FCC separations or accounting rules. LECs subject to price caps have somewhat increased flexibility to change the prices of existing services within certain groupings of interstate services, known as "baskets".

Under price cap regulation, the Company can earn a rate of return on overall investment of up to 12.25% (100 basis points over the currently authorized rate of return of 11.25%). If the Company's rate of return is between 100 and 500 basis points above the authorized rate of return (that is, currently, between 12.25% and 16.25%), the Company must share 50% of the earnings above the 100-basis-point level with customers by reducing rates prospectively. All earnings above the 500-basis-point level must be returned to customers in the form of prospective rate decreases. If, on the other hand, the Company's rate of return is more than 100 basis points below the authorized rate of return (that is, currently, below 10.25%), the Company is permitted to increase rates prospectively to make up the deficiency.

LEC price cap regulation took effect on January 1, 1991. The LEC price cap order has been appealed by several parties to the United States Court of Appeals for the District of Columbia Circuit. These appeals are being held in abeyance pending the FCC's resolution of pending petitions for reconsideration. Pending a decision on these appeals, which is unlikely to occur within the next year, price cap regulation remains in effect for the Company.

Computer Inquiry III

In August 1985, the FCC initiated Computer Inquiry III to re-examine its regulations requiring that "enhanced services" (e.g., voice message services, electronic mail, videotext gateway, protocol conversion) be offered only through a structurally separated subsidiary. In 1986, the FCC eliminated this requirement, permitting the Company to offer enhanced services, subject to compliance with a series of nonstructural safeguards designed to promote an effectively competitive market. These safeguards include detailed cost accounting, protection of customer information and certain reporting requirements.

In June 1990, the United States Court of Appeals for the Ninth Circuit vacated and remanded the Computer Inquiry III decisions, finding that the FCC had not fully justified those decisions. On December 20, 1991, the FCC adopted an order on remand which reinstated structural relief upon a company's compliance with the FCC's Computer III Open Network Architecture (ONA) requirements, and strengthened some of the nonstructural safeguards. In the interim, the Company had filed an interstate tariff implementing the ONA requirements. That tariff became effective on February 2, 1992, subject to further investigation. On March 9, 1992, the Company certified to the FCC that it had complied with all initial ONA obligations and should be granted structural relief for enhanced services. The FCC is expected to rule on that certification after mid-April 1992.

The FCC's December 1991 order has been appealed to various United States Courts of Appeals by several parties. Pending decisions on those appeals, which are not expected to occur before 1993, the FCC's decision remains in effect. If a Court again reverses the FCC, the Company's right to offer enhanced services could be impaired.

FCC Cost Allocation Rules

In 1987, the FCC adopted rules governing (1) the allocation of costs between regulated and nonregulated activities and (2) transactions with affiliates. Pursuant to those rules, the Company has filed a cost allocation manual which has been approved by the FCC.

The cost allocation rules apply to activities that have never been regulated as communications common carrier offerings and to activities that have been pre-emptively deregulated by the FCC. The costs of these activities are removed prior to the separations process and are allocated to non-regulated activities in the aggregate, not to specific services, for pricing purposes. Other activities must be accounted for as regulated activities, and their costs will be subject to separations. These include (1) activities which have been deregulated by the FCC without pre-empting state regulation, (2) activities which have been deregulated by a state but not the FCC and (3) "incidental activities", which cannot, in the aggregate, produce more than 1% of a company's revenues.

The affiliate transaction rules generally require that assets be transferred between affiliates at market price, if such price can be established through a tariff or a prevailing price charged to third parties. In the absence of such information, transfers from a regulated to an unregulated affiliate must be valued at the higher of cost or fair market value, and transfers from an unregulated to a regulated affiliate must be valued at the lower of cost or fair market value. Services provided to an affiliate must be valued at tariff rates, or market prices if the service is also provided to unaffiliated entities. If the affiliate does not also provide the service to unaffiliated entities, the price must be determined in accordance with the FCC's cost allocation principles.

The FCC has not made its rules pre-emptive. State regulatory authorities are free to use different cost allocation methods and affiliate transaction rules for intrastate ratemaking, and to require carriers to keep separate allocation records.

Telephone Company/Cable Television Cross-Ownership

In 1987, the FCC initiated an inquiry into whether developments in the cable and telephone industries warranted changes in the "cross-ownership" rules prohibiting telephone companies such as the Company from providing cable service in their service territories directly or indirectly through an affiliate.

On November 22, 1991, the FCC released a Further Notice of Proposed Rulemaking (FNPRM) in its cross-ownership proceedings. The FNPRM proposes to permit telephone companies such as the Company to provide video dial tone service on a common carrier basis.

The FCC also released a First Report and Order (Order) and a Second Further Notice of Inquiry (FNOI). In the Order, the FCC ruled that neither telephone companies that provide video dial tone service, nor video programmers that use these services, are required to obtain local cable franchises. The FNOI asks for comments on whether the FCC should recommend to Congress any changes in the statute prohibiting telephone companies from providing cable service in their telephone service areas.

Interconnection and Collocation

On June 6, 1991, the FCC released a Notice of Proposed Rulemaking (NPRM) which proposes to allow third parties to collocate their equipment in, or very near, telephone company offices to provide special access (private line) services to the public. The FCC's stated purpose for the proposed rulemaking is to encourage greater competition in the provision of interstate special access services. The FCC has tentatively concluded that collocating parties would pay the telephone company an interconnection charge that is lower than the existing tariffed rates for similar non-collocated services. In the same release, the FCC issued a Notice of Inquiry (NOI) asking what policies it should adopt in regard to interstate switched access collocation. Comments and replies to the NPRM and NOI have been filed by the Bell Atlantic telephone companies and others. The FCC has not reached a final decision in either part of the proceeding, nor can the Company predict when such a decision will be made.

If the FCC permits increased competition by allowing collocation, the Company's revenues would be adversely affected, although some of the lost revenues could be offset by increased demand if, as the Bell Atlantic telephone companies requested in their comments, the FCC provides the Company with greater pricing flexibility. Collocation for the provision of switched access services would result in greater revenue losses to the Company than would special access collocation. The Company will not be able to estimate the revenue impact of either type of collocation until the conditions of collocation (if any) are determined and announced by the FCC.

Intelligent Networks

On December 6, 1991, the FCC issued a Notice of Inquiry (NOI) into the plans of exchange carriers, including the Company, to deploy new "modular" network architectures, such as Advanced Intelligent Network (AIN) technology. The NOI asks what, if any, regulatory action the FCC should take to assure that such architectures are deployed in a manner that is "open, responsive, and procompetitive". The FCC is still accepting comments on this NOI, and the Company cannot predict when the FCC will issue an order in this proceeding.

The results of this inquiry could include a requirement that the Company offer individual components of its services, such as switching and transport, to competitors who will provide the remainder of such services through their own facilities. Such increased competition could divert revenues from the Company. However, deployment of AIN technology may also enable the Company to respond more quickly and efficiently to customer requests for new services. This could result in increased revenues from new services that could at least partially offset the expected competitive losses.

STATE REGULATION AND INTRASTATE RATES

The communications services of the Company are subject to regulation by the Public Service Commission of Maryland (PSC) with respect to intrastate rates and services, intrastate depreciation rates and other matters.

In September 1988, the PSC instituted an investigation into rates for Centrex services, including exchange access and the Subscriber Line Charge credit. Hearings were held in June 1989. In November 1990, the Hearing Examiner issued a proposed order upholding the Company's pricing methodology and rates for Centrex. An appeal of the proposed order to the PSC is pending.

In May 1990, the Company, the Office of People's Counsel, and the Staff of the PSC filed a joint petition for approval of an agreement among them concerning an appropriate regulatory structure for the Company following the end of the Regulatory Reform Compliance Plan that had been accepted by the PSC on September 9, 1988. Hearings were held in August 1990, and on September 24, 1990 the PSC approved the agreement effective October 1, 1990. Under the agreement, earnings on services in the other-than-competitive category between 13.6% and 15.6% on equity will be shared equally between the Company and its ratepayers, while earnings on other-than-competitive services over 15.6% on equity will be refunded to ratepayers. Earnings on competitive services are not subject to a rate of return limitation. As a part of the agreement, rates for basic services are capped at current levels for two years.

In addition, the PSC's September 24, 1990 order determined that a rate proceeding will be instituted, not later than Spring 1992, to examine the Company's financial and operating results, the rate structure for the Company's services, and the effects of the new regulatory framework, and to serve as a rate case for determining rates for services that the PSC has determined are other-than-competitive.

On July 19, 1991, the PSC issued an order establishing principles and guidelines for the Company's cost allocation manual to be used, among other purposes, in connection with implementing the agreement. The terms of that order, as modified by a PSC order dated October 25, 1991, require the Company to impute $21.6 million in profit from services classified as competitive in the agreement (principally intrastate income from directory advertising) to its other-than-competitive category of services to determine if any refund of its earnings is required under the sharing provision of the agreement.

The PSC has also directed that an audit be performed of services obtained by the Company from, and transactions engaged in by the Company with, affiliated entities. An independent auditing firm was selected by the PSC to conduct the audit and is expected to file its final report with the PSC in April 1992, in advance of the rate proceeding.

NEW PRODUCTS AND SERVICES

Bell Atlantic® IQ℠ Services

The Company has introduced the Bell Atlantic® IQ℠ Services family of calling features. These features include Ultra Forward, which customers can use to program call-forwarding instructions; Identa Ring℠ service, which allows a single line to have multiple telephone numbers, each with a distinctive ring; Caller ID, which displays the number of the calling party; Repeat Call, which allows customers to automatically redial busy phone numbers; Return Call which allows customers to automatically return the last incoming call, even without knowing the number; and Home Intercom, which allows for phone-to-phone dialing within the home.

Gateway Services

The Company is continuing its trials of Gateway Services. Gateway Services provide a single point of entry for users of personal computers to gain access to multiple databases.

Information Services

The Company offers various types of information services, such as message storage services, voice mail, electronic mail, and electronic data interchange (see "Line of Business Restrictions"). The Company also offers Answer Call, a telephone answering service aimed at residential and small business customers.

COMPETITION

Regulatory proceedings, as well as new technology, are continuing to expand the types of available communications services and equipment and the number of competitors offering such services. An increasing amount of this competition is from large companies which have substantial capital, technological and marketing resources.

Bypass

A substantial portion of the Company's revenues from business and government customers is derived from a relatively small number of large, multiple-line subscribers.

The Company faces competition from alternative communications systems, constructed by large end users or by interexchange carriers, which are capable of originating and/or terminating calls without the use of the local telephone company's plant.

Metropolitan Fiber Systems has deployed an optical fiber network which competes with the Company in the Baltimore metropolitan area. In the Washington, D.C. metropolitan area, Institutional Communications Company, in which Metropolitan Fiber Systems has acquired a controlling interest, has also deployed an optical fiber network which competes with the Company in the provision of switched and special access services and local services.

Metropolitan Fiber Systems has filed petitions with the FCC and the Department of Justice and a complaint with the Maryland PSC, seeking to require additional forms of interconnection with telephone company facilities to enhance their competitive efforts.

Other potential sources of competition are cable television systems, shared tenant services and other non-carrier systems which are capable of bypassing the Company's local plant either completely, or partially, through substitution of special access for switched access or through concentration of telecommunications traffic on fewer of the Company's lines.

The Company seeks to meet such bypass competition by maintaining competitive cost-based prices for exchange access (to the extent the FCC and state regulatory authorities permit the Company's prices to move toward costs), by keeping service quality high and by effectively implementing advances in technology (see "FCC Regulation and Interstate Rates - Interstate Access Charges", "FCC Access Charge Pooling Arrangements").

Personal Communications Services

Radio-based personal communications services also constitute potential sources of competition to the Company. The FCC has authorized trials of such services, using a variety of technologies, by numerous companies. On January 16, 1992, the FCC adopted a Notice of Proposed Rulemaking to allocate a portion of the radio spectrum to emerging telecommunications technologies, including Personal Communications Service (PCS). PCS consists of a series of wireless portable telephone services which would allow customers to make and receive calls from any location using small handsets. If implemented, PCS and other similar services would compete with services currently offered by the Company, and could result in losses of revenues to the Company, although the Company may be able to derive new revenues if it obtains authorization to provide PCS or similar new services. If PCS is implemented, the FCC is expected to authorize more than a single service provider in each geographic area.

Centrex

The Company offers Centrex service, which is a central office-based communications system for business, government and other institutional customers consisting of a variety of integrated software-based features located in a centralized switch or switches and extended to the customer's premises primarily via local distribution facilities. In the provision of Centrex, the Company encounters increasing competition from the providers of CPE systems, such as PBXs, which perform similar functions with less use of the Company's switching facilities.

Users of Centrex systems generally require more subscriber lines than users of PBX systems of similar capacity. The FCC increased the maximum Subscriber Line Charge on embedded Centrex lines to $6.00 effective April 1, 1989. Increases in Subscriber Line Charges result in Centrex users incurring higher charges than users of comparable PBX systems. A Hearing Officer's proposed order upholding the Company's pricing methodology and rates for Centrex, which are designed to offset the effects of such higher Subscriber Line Charges, has been appealed to the PSC.

IntraLATA Competition

The ability of interexchange carriers to engage in the provision of intrastate intraLATA toll service in competition with the Company is subject to regulation by the PSC. In Maryland, intraLATA toll service within the state is open to competition with interexchange carriers (IXCs). The PSC has jurisdiction over the rates to be charged by the Company to such competitors for intraLATA access services, as well as over toll rates, that are charged by the Company and the IXCs.

Directory

The Company's directory operations continue to face significant competition from other providers of directories, as well as competition from other advertising media. In particular, the former sales representative of several of Bell Atlantic's telephone subsidiaries publishes directories competitive with those produced by the Company.

Coin Telephone Service

The Company faces increasing competition in the provision of coin telephone services.

Operator Services

Alternative operator services providers have entered into competition with the Company's operator services product line.

CERTAIN CONTRACTS AND RELATIONSHIPS

The Company is a party to various arrangements for provisions to the Company of management advice and assistance and of technical research and development.

Certain planning, marketing, procurement, financial, legal, accounting technical support and other management services are provided for the Company on a centralized basis through Bell Atlantic Network Services, Inc. (NSI), a service subsidiary of Bell Atlantic. Bell Atlantic Network Funding Corporation provides financing services to the Company. Prior to 1990 the Company shared the expenses of joint officers and employees with The Chesapeake and Potomac Telephone Company, The Chesapeake and Potomac Telephone Company of Virginia and The Chesapeake and Potomac Telephone Company of West Virginia, also wholly-owned subsidiaries of Bell Atlantic.

The seven RHCs each own (directly or through subsidiaries) a one-seventh interest in Bell Communications Research, Inc. (Bellcore). Pursuant to the Plan, this organization furnishes the RHCs and their BOC subsidiaries with technical assistance such as network planning, engineering and software development, as well as various other consulting services that can be provided more effectively on a centralized basis. Bellcore is the central point of contact for coordinating the efforts of the RHCs in meeting the national security and emergency preparedness requirements of the federal government. It also helps to mobilize the combined resources of the companies in times of natural disasters.

EMPLOYEE RELATIONS

As of December 31, 1991, the Company employed approximately 9,749 persons, representing a 7.1% decrease from the number of employees at December 31, 1990. Approximately one-fourth of these employees are members of the centralized staff of NSI, performing services for the Company on a contract basis. Approximately 89% of the employees of the Company are represented by the Communications Workers of America, which is affiliated with the AFL-CIO.

Under the terms of the three-year contracts ratified in September 1989 by unions representing associate employees, represented associates received a base wage increase of 2.25% and a cost of living increase of 1.15% in August 1991. Under the same contracts, associates received a Corporate Profit Sharing payment of $480 per person in 1992 based upon the Company's 1991 financial performance.

Item 2. Properties

The principal properties of the Company do not lend themselves to simple description by character and location. At December 31, 1991, the Company's investment in plant, property and equipment consists of the following:

Connecting lines	44%
Central office equipment	38
Land and buildings	7
Telephone instruments and related equipment	2
Other	9
	100%

"Connecting lines" consists primarily of aerial cable, underground cable, poles, conduit and wiring. "Central office equipment" consists of switching equipment, transmission equipment and related facilities. "Land and buildings" consists of land owned in fee and improvements thereto, principally central office buildings. "Telephone instruments and related equipment" consists primarily of public telephone terminal equipment and other terminal equipment. "Other" property consists primarily of furniture, office equipment, vehicles and other work equipment, capital leases, leasehold improvements and plant under construction.

The Company's central offices served by electronic switching equipment accounted for 100% of subscriber lines served in 1991 and 1990.

An analysis of the estimated components of the Company's construction program for the last two years is as follows:

	(In Thousands)	
	1991	1990
Network growth	$204,700	$238,400
Network modernization	82,700	63,600
Network support	37,400	43,700
Market specific	28,800	19,800
Network replacement	24,600	19,900
Operations support	11,700	11,900
Capital expenditures	389,900	397,300
Allowance for funds used during construction	8,400	8,300
Total construction program	$398,300	$405,600

Item 3. Legal Proceedings

Pre-Divestiture Contingent Liabilities

The Plan provides for the recognition and payment by AT&T and the former BOCs (including the Company) of liabilities that are attributable to pre-Divestiture events but do not become certain until after Divestiture. These contingent liabilities relate principally to litigation and other claims with respect to the former Bell System's rates, taxes, contracts and torts (including business torts, such as alleged violations of the antitrust laws). Except to the extent that affected parties otherwise agree, contingent liabilities that are attributable to pre-Divestiture events are shared by AT&T and the BOCs in accordance with formulas prescribed by the Plan, whether or not an entity was a party to the proceeding and regardless of whether an entity was dismissed from the proceeding by virtue of settlement or otherwise. Each company's allocable share of liability under these formulas depends on several factors, including the type of contingent liability involved and each company's relative net investment as of the effective date of Divestiture. Under the formula generally applicable to most of the categories of these contingent liabilities, the Company's aggregate allocable share of liability is approximately 1.5%.

The Company's share of these liabilities to date has not been material to its financial position or results of operations for any period. While complete assurance cannot be given as to the outcome of any contingent liabilities, in the opinion of the Company's management, any monetary liability or financial impact to which the Company is subject as a result of these contingent liabilities is not expected to be material in amount to the financial position of the Company.

Pending Cases

AT&T and various of its subsidiaries and the BOCs (including in some cases the Company) have been parties to various types of litigation, including litigation involving allegations of violations of antitrust laws and equal employment laws. Most of the litigation alleging violations of the antitrust laws has been resolved. However, other matters are still pending. Damages, if any, ultimately awarded in these remaining actions relating to pre-Divestiture events could have a financial impact on the Company whether or not the Company is a defendant since such damages will be treated as contingent liabilities and allocated in accordance with the allocation rules established by the Plan (see "Pre-Divestiture Contingent Liabilities" above).

While complete assurance cannot be given as to the outcome of any litigation, in the opinion of the Company's management, any monetary liability or financial impact to which the Company would be subject after final adjudication of all of the foregoing actions would not be material in amount to the financial position of the Company.

Item 4. Submission of Matters to a Vote of Security Holders (Omitted pursuant to General Instruction J(2)).

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters (Inapplicable).

Item 6. Selected Financial Data (Omitted pursuant to General Instruction J(2)).

Item 7. Management's Discussion and Analysis of Results of Operations (Abbreviated pursuant to General Instruction J(2))

This discussion should be read in conjunction with the Financial Statements and Notes to Financial Statements included in the index set forth on page F-1.

The Company recorded a net loss of $22,477,000 for the year ended December 31, 1991 principally due to the Company's election to adopt Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). In conjunction with this adoption, the Company recorded a one-time, non-cash, after-tax charge of $257,874,000, representing the actuarial liability for postretirement health and life insurance benefits attributable to prior service of retired and active employees. Net income, excluding the cumulative effect of the change in accounting principle, increased 8.3% over 1990. The Company's rates of return to average common equity were (1.6%) and 15.4% for the years ended December 31, 1991 and 1990. The Company's rates of return on average total capital for the periods ended December 31, 1991 and 1990 were 2.6% and 11.9%, respectively. The decrease in the 1991 rates of return also resulted from the adoption of Statement No. 106.

Operating Revenues for the year ended December 31, 1991 increased $62,953,000 or 3.7% compared to the same period last year. The increase in total operating revenues was comprised of the following:

	(In Thousands)
Local service	$28,419
Network access	16,001
Other	14,161
Provision for uncollectibles	4,372
	$62,953

Local service revenues are earned by the Company from the provision of local exchange, local private line, and public telephone services. Local service revenues increased 3.1%, principally due to increases of $18,621,000 or 16.8% derived from custom calling services and other intelligent network features offered by the Company. The increase in the number of total access lines in service continues to reflect weak economic conditions that began in late 1990, as the growth rate for the current period was 1.6%, representing an increase of 44,000 lines, to 2,876,000 access lines, compared to a 3.3% growth rate for the same period last year. The business customer access lines growth rate for the current period was 1.8%, representing an increase of 16,000 lines, compared to a 5.4% growth rate for the prior year.

Network access revenues are earned from interexchange carriers (IXCs) for the use of the Company's local exchange facilities in providing interstate and intrastate long-distance services to their customers, and from end-user subscribers. Switched access revenues are derived from usage based charges paid by IXCs for access to the Company's network. Special access revenues arise from access charges paid by subscribers who have private lines and end-user revenues are earned from local exchange carrier (LEC) customers who pay a monthly charge, per access line, for access to the network.

Effective January 1, 1991, the Federal Communications Commission (FCC) adopted price cap regulation and lowered the authorized rate of return for interstate access services from 12.0% to 11.25%. Price caps, a form of incentive regulation, limit prices rather than profits. The FCC's price cap plan includes a sharing provision whereby interstate earnings above certain thresholds are shared equally with customers, while earnings above substantially higher thresholds are returned entirely to customers. Sharing occurs in the form of temporary prospective rate decreases. The Company reduced its rates for interstate access services on January 1, 1991 to reflect the lower authorized rate of return. In its first Annual Price Cap Tariff filing, effective July 1, 1991, the Company further reduced its rates. These two rate reductions, net of lower support obligations to the National Exchange Carrier Association (NECA) pool, reduced 1991 revenues approximately $6,800,000.

Network access revenues increased 3.5%, substantially due to a $13,645,000 or 5.0% increase in switched access revenues over the prior year. This increase was due to an increase of 498,612,000 or 7.1% in interstate switched access minutes of use by IXCs, which more than offset the effects of the aforementioned rate reductions in 1991. Higher access revenues from end-user subscribers of $3,416,000 and a decrease in the Company's allocable share of Bell Atlantic's continuing obligation to the NECA pool also contributed to the increase. The weakened economy cited above has, however, slowed the growth in end-user revenues.

Other operating revenues include amounts earned from the sale of advertising in the Company's telephone directories, toll service, billing and collection services provided to IXCs, premises services such as inside wire installation and maintenance and rent revenues for use of the Company's facilities by affiliates and non-affiliates. Rent revenues increased $11,591,000 or 35.5% as a result of increased billing to affiliates. Directory advertising revenues increased $8,004,000 or 5.7% in 1991 due to higher rates. Advertising volumes, however, continue to be adversely impacted by the weak economy. The volume of subscribers to the Company's voice messaging service increased significantly during 1991 contributing $1,600,000 to other operating revenues. Other increases included $3,400,000 of referral commissions under joint marketing agreements with affiliated companies and $2,290,000 of toll service revenues. These increases were partly offset by a $10,718,000 or 29.7% decrease in revenues from the provision of billing and collection services to the IXCs primarily attributable to lower rates and reductions in services provided under long-term contracts. Further offsetting the increases in other operating revenues was a $2,830,000 decrease, as uncollectible amounts from purchased receivables exceeded reimbursable limits under the revised billing and collection contracts.

Other operating revenues for the year ended December 31, 1991 also reflect an increase of $4,372,000 primarily due to adjustments in 1990 of the provision for uncollectibles.

Operating Expenses for the year ended December 31, 1991 increased $39,105,000 or 3.0% over 1990. The increases in operating expenses were comprised of the following:

	(In Thousands)
Depreciation and amortization ...	$12,373
Employee costs	7,658
Other	19,074
	$39,105

Depreciation and amortization expense increased $12,373,000 or 4.2% over 1990 as a result of growth in depreciable plant of 4.1% over 1990.

Employee costs include salaries and wages, commissions, pension and benefit expenses, and payroll taxes paid directly by the Company. Similar costs incurred by employees of Bell Atlantic Network Services, Inc. (NSI) are allocated to the Company and are included in other operating expenses. During 1991, Bell Atlantic and the Company announced retirement incentive programs for both management and associate employees. Approximately 445 management and associate employees retired from the Company under these programs by the end of December 1991.

Employee costs in 1991 rose due to annual wage increases provided for in the labor contracts covering associates and salary progressions for management employees. Benefit expenses increased $7,254,000 or 6.7% in 1991 due primarily to increases in the costs of providing health care benefits to active and retired employees. In addition, a one-time charge of $2,321,000 was recorded in 1991 in connection with the retirement incentive programs. These increases were partially offset by the effects of hiring freezes, constraints on overtime, lower accruals for performance awards and work force reductions. The Company continued to address the adverse effects of health care inflation by implementing certain medical cost containment initiatives in 1991. Additional cost sharing arrangements affecting management employees retiring after December 31, 1991 were also announced during 1991 in an effort to control future health care cost increases.

Other operating expenses consist primarily of contracted services, including centralized staff costs allocated from NSI, rents, operating taxes other than income taxes, and other general and administrative expenses. Other expenses for the year ended December 31, 1991 increased $19,074,000 or 3.2% over 1990. The increase in other expenses reflects a rise in information management costs of $14,928,000, $7,721,000 of restructure related costs associated with the retirement incentive programs, and $7,580,000 of additional costs allocated to the Company by NSI, as a result of its adoption of Statement No. 106. The Company's 1991 other operating expenses also reflect $2,106,000 associated with an overcollection of Anne Arundel County excise tax. These increases were partly offset by decreases of $4,729,000 in product advertising expenses, $4,410,000 associated with the 1991 settlement of a sales tax audit issue, $1,851,000 related to a 1990 litigation settlement, and a decline of $1,798,000 in central office switching costs.

Operating Income Taxes for the period ended December 31, 1991 increased $16,945,000 or 17.5% over the same period last year primarily due to an increase in taxable income. The Company's effective income tax rate before the cumulative effect of the change in accounting principle was 32.5% for the year ended December 31, 1991, compared to 30.3% in 1990. A reconciliation of the statutory federal income tax rate to these effective rates is included in Note (6) of Notes to Financial Statements. A discussion of the prospective impact of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", is also included therein.

Interest Expense for the year ended December 31, 1991 decreased $8,073,000 or 8.5% over 1990. This decrease reflects a $7,283,000 reduction of accrued interest expense associated with a regulatory issue related to denial of basic service for nonpayment of interstate toll service provided by IXCs that has been settled and for which payments, including interest, have been remitted. Also contributing to this decrease were adjustments of approximately $5,094,000 related to the 1991 settlement of a sales tax audit issue. These decreases were partially offset by an increase of approximately $4,153,000 due to higher average levels of short-term debt.

Federal Regulatory Development In June 1991, the FCC released a Notice of Proposed Rulemaking (NPRM) that proposes to allow third parties to collocate their equipment in, or very near, telephone company offices to provide special access (private line) services to the public. The FCC's stated purpose for the proposed rulemaking is to encourage greater competition in the provision of interstate special access services. The FCC has tentatively concluded that collocating parties would pay the telephone company an interconnection charge that is lower than the existing tariffed rates for similar non-collocated services. In the same release, the FCC issued a Notice of Inquiry (NOI) asking what policies it should adopt in regard to interstate switched access collocation. Comments and replies to the NPRM and NOI have been filed by Bell Atlantic and others. The FCC has not reached a final decision in either part of the proceeding, nor can the Company predict when such a decision will be made.

If the FCC permits increased competition by allowing collocation, the Company's revenues would be adversely affected, although some of the lost revenues could be offset by increased demand if, as the local exchange carriers requested in their comments, the FCC provides the Company with greater pricing flexibility. Collocation for the provision of switched access services would result in greater revenue losses to the Company than would special access collocation. The Company will not be able to estimate the revenue impact of either type of collocation until the conditions of collocation (if any) are determined and announced by the FCC.

Financial Condition During 1991, the Company generated $342,976,000 in cash from operating activities, net of dividends, compared to $344,620,000 in 1990. In 1991, the Company invested $388,844,000 (net of reused materials and allowance for funds used during construction) in continued expansion and technological improvements to the network, compared to $398,380,000 in 1990. Management estimates that 1992 capital expenditures will approximate $375,000,000.

On August 1, 1991, the Company sold $100,000,000 of 8.3% debentures, due August 1, 2031. The $100,000,000 Five Year 10 1/4% Debentures due October 15, 1992 have been reclassified to debt maturing within one year. (See Note (2) of Notes to Financial Statements.) As of December 31, 1991, the Company has $200,000,000 remaining of a shelf registration filed in November 1990 with the Securities and Exchange Commission (SEC).

As of December 31, 1991, the Company's debt ratio was 48.0%, compared to 43.0% at December 31, 1990. The debt ratio in 1991 was significantly impacted by the equity reduction associated with the adoption of Statement No. 106. Excluding this effect the debt ratio would have been 40.7%.

Management believes that working capital and available credit facilities are adequate to meet normal operating requirements; and that while presently foreseeable capital requirements will continue to be financed primarily through internally generated funds, some additional debt financing may be needed to maintain the Company's capital structure within management's guidelines.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item is set forth on pages F-1 through F-21.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant (Omitted pursuant to General Instruction J(2)).

Item 11. Executive Compensation (Omitted pursuant to General Instruction J(2)).

Item 12. Security Ownership of Certain Beneficial Owners and Management (Omitted pursuant to General Instruction J(2)).

Item 13. Certain Relationships and Related Transactions (Omitted pursuant to General Instruction J(2)).

PART IV

Item 14. Exhibits, Financial Statements, Financial Statement Schedules, and Reports on Forms 8-K.

(a) Documents filed as part of this report:

(1) Financial Statements

See Index to Financial Statements and Financial Statement Schedules appearing on page F-1.

(2) Financial Statement Schedules

See Index to Financial Statements and Financial Statement Schedules appearing on page F-1.

(3) Exhibits

Exhibits identified in parentheses below, on file with the Securities and Exchange Commission (SEC), are incorporated herein by reference as exhibits hereto.

Exhibit Number (Referenced to Item 601 of Regulation S-K)

3a Articles of Restatement of registrant July 30, 1990. (Exhibit 3a to the Chesapeake and Potomac Telephone Company of Maryland Annual Report on Form 10-K for 1990, File No. 1-6875.)

3b By-Laws of the registrant as amended January 1, 1990. (Exhibit 3b to the Chesapeake and Potomac Telephone Company of Maryland Annual Report on Form 10-K for 1989, File No. 1-6875.)

4 No instrument which defines the rights of holders of long-term debt of the registrant is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.

10a Agreement Concerning Contingent Liabilities, Tax Matters and Termination of Certain Agreements among AT&T, Bell Atlantic, the Bell Atlantic telephone subsidiaries, and certain other parties, dated as of November 1, 1983. (Exhibit 10h to Bell Atlantic Corporation Annual Report on Form 10-K for the year ended December 31, 1983, referred to hereafter as "Bell Atlantic 1983 Form 10-K".)

10b Agreement among Bell Atlantic Network Services, Inc. and the telephone subsidiaries, dated November 7, 1983. (Exhibit 10i to Bell Atlantic 1983 Form 10-K.)

24 Consent of Coopers & Lybrand.

25 Powers of Attorney.

(b) Reports on Form 8-K:

A report on Form 8-K, dated July 18, 1991, was filed reporting on Item 7 (Financial Statements and Exhibits) in connection with the sale of debt securities.

A report on Form 8-K, dated July 31, 1991, was filed reporting on Item 5 (Other Events) in connection with a Maryland Public Service Commission order on the Company's cost allocation manual.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE CHESAPEAKE AND POTOMAC TELEPHONE
COMPANY OF MARYLAND

By R. G. Petzold
R. G. Petzold
Controller

March 26, 1992

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Principal Executive Officer:

FREDERICK D. D'ALESSIO President and Chief Executive Officer

Principal Financial Officer
and Controller:

RICHARD G. PETZOLD Controller

Directors:
George L. Bunting, Jr.
Frederick D. D'Alessio
Dr. Rhoda M. Dorsey
F. Barton Harvey, Jr.
James H. McLean
J. William Sarver
John W. Seazholtz
Robert F. Tardio
J. Blacklock Wills

By R. G. Petzold
R. G. Petzold
(individually and as
attorney-in-fact)
March 26, 1992

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF MARYLAND

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

Financial statement schedules other than those listed above have been omitted either because the required information is contained in the financial statements and the notes thereto, or because such schedules are not required or applicable.

REPORT OF MANAGEMENT

The management of The Chesapeake and Potomac Telephone Company of Maryland is responsible for the financial statements and the information and representations contained in this report. Management believes that the financial statements have been prepared in conformity with generally accepted accounting principles and that the other information in this report is consistent with those statements. Management is required to include in the financial statements amounts, primarily related to matters not concluded by year-end, that are based on management's best estimates and judgments.

In meeting its responsibility for the financial statements of the Company, management maintains a strong internal control structure, including the appropriate control environment, accounting systems and control procedures. The internal control structure is designed to provide reasonable assurance that assets are safeguarded from unauthorized use or disposition, that transactions are properly recorded and executed in accordance with management's authorization and that the financial records permit the preparation of reliable financial statements. There are, however, inherent limitations that should be recognized in considering the assurances provided by the internal control structure. The concept of reasonable assurance recognizes that the costs of the internal accounting control should not exceed the benefits to be derived. The internal control structure is reviewed and evaluated on a regular basis. Compliance is monitored by the internal auditors through an annual plan of internal audits.

The Board of Directors pursues its review and oversight role for these financial statements through an Audit Committee composed of three outside directors. The duties of the Audit Committee include recommending to the Board of Directors the appointment of an independent accounting firm to audit the financial statements of the Company. The Audit Committee meets periodically with management and the Board of Directors. It also meets with representatives of the internal and independent auditors and reviews the work of each to ensure that their respective responsibilities are being carried out and to discuss related matters. Both the internal and independent auditors have direct access to the Audit Committee.

The financial statements of the Company have been audited by Coopers & Lybrand, independent accountants, whose report is included on the following page.

R. G. Petzold
Controller

REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and Shareowner of
The Chesapeake and Potomac Telephone Company of Maryland

We have audited the financial statements and the financial statement schedules of The Chesapeake and Potomac Telephone Company of Maryland as listed in the index on page F-1 of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Chesapeake and Potomac Telephone Company of Maryland as of December 31, 1991 and 1990, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

As discussed in Notes (4) and (7) of Notes to Financial Statements, the Company changed its method of accounting for postretirement benefits other than pensions in 1991.

/s/Coopers & Lybrand

Baltimore, Maryland
February 5, 1992

STATEMENTS OF INCOME AND REINVESTED EARNINGS

	Dollars in Thousands		
	For the Years Ended December 31,		
	1991	1990	1989
OPERATING REVENUES			
Local service	$ 935,059	$ 906,640	$ 867,135
Network access	474,721	458,720	417,703
Toll service	113,984	111,694	109,844
Directory advertising, billing services and other	270,649	258,778	238,977
Provision for uncollectibles	(15,059)	(19,431)	(6,238)
	1,779,354	1,716,401	1,627,421
OPERATING EXPENSES			
Employee costs, including benefits and taxes	426,456	418,798	446,697
Depreciation and amortization	305,377	293,004	302,934
Taxes other than income	96,363	92,114	87,432
Other	522,560	507,735	452,154
	1,350,756	1,311,651	1,289,217
Net operating revenues	428,598	404,750	338,204
OPERATING INCOME TAXES			
Federal	102,223	88,823	64,364
State	11,512	7,967	8,972
	113,735	96,790	73,336
Operating income	314,863	307,960	264,868
OTHER INCOME (EXPENSE)			
Allowance for funds used during construction	8,394	8,330	8,509
Miscellaneous - net	(515)	(3,529)	(495)
	7,879	4,801	8,014
INTEREST EXPENSE	87,345	95,418	91,432
INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	235,397	217,343	181,450
EXTRAORDINARY ITEM:			
Loss on early extinguishment of debt (less applicable income tax benefit of $4,557)	-	-	(8,203)
[redacted]	(257,874)	-	-
NET INCOME (LOSS)	$ (22,477)	$ 217,343	$ 173,247

STATEMENTS OF INCOME AND REINVESTED EARNINGS

	Dollars in Thousands		
	For the Years Ended December 31,		
	1991	1990	1989
REINVESTED EARNINGS			
At beginning of year	$ 615,558	$ 551,680	$ 503,955
Add: net income (loss)	(22,477)	217,343	173,247
	593,081	769,023	677,202
Deduct: dividends	190,750	153,377	125,444
other charges	160	88	78
At end of year	$ 402,171	$ 615,558	$ 551,680

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS

	Dollars in Thousands	
	December 31, 1991	December 31, 1990
ASSETS		
CURRENT ASSETS		
Cash	$ -	$ 4,063
Accounts receivable:		
Customers and agents, net of allowances for uncollectibles of $17,734 and $15,099	248,018	244,839
Parent and affiliate	20,761	21,858
Other	19,213	19,621
Material and supplies	9,157	11,980
Prepaid expenses	39,168	39,415
Deferred income taxes	21,149	5,262
Deferred charges	73,225	67,346
	430,691	414,384
PLANT, PROPERTY AND EQUIPMENT - at cost		
In service	4,980,529	4,782,555
Under construction and other	58,050	88,427
	5,038,579	4,870,982
Accumulated depreciation	(1,805,953)	(1,736,402)
	3,232,626	3,134,580
DEFERRED CHARGES AND OTHER ASSETS	58,205	55,205
TOTAL ASSETS	$3,721,522	$3,604,169

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS

LIABILITIES AND SHAREOWNER'S INVESTMENT	Dollars in Thousands December 31, 1991	December 31, 1990
CURRENT LIABILITIES		
Debt maturing within one year:		
Affiliate	$ 113,310	$ 167,272
Other	102,401	2,545
Accounts payable:		
Parent and affiliates	77,197	56,557
Other	162,943	170,070
Accrued expenses:		
Vacation pay	31,073	31,563
Interest	25,824	26,583
Taxes	23,225	14,451
Other	28,259	39,997
Advance billing and customer deposits	37,211	39,267
	601,443	548,305
LONG-TERM DEBT	917,315	916,168
DEFERRED CREDITS		
Deferred income taxes	403,185	522,346
Unamortized investment tax credits	87,938	97,960
Employee benefit obligations	**443,343**	**29,488**
Other	40,707	48,924
	975,173	698,718
CONTINGENCIES		
SHAREOWNER'S INVESTMENT		
Common stock - one share, without par value, owned by parent	825,420	825,420
Reinvested earnings	402,171	615,558
	1,227,591	1,440,978
TOTAL LIABILITIES AND SHAREOWNER'S INVESTMENT	$3,721,522	$3,604,169

The accompanying notes are an integral part of these financial statements.